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The new demographics

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How to live with an ageing population

BY 2030, people over 65 in Germany, the world's third-largest economy, will account for almost half the adult population, compared with one-fifth now. And unless the country's birth rate recovers from its present low of 1.3 per woman, over the same period its population of under-35s will shrink about twice as fast as the older population will grow. The net result will be that the total population, now 82m, will decline to 70m-73m. The number of people of working age will fall by a full quarter, from 40m today to 30m.

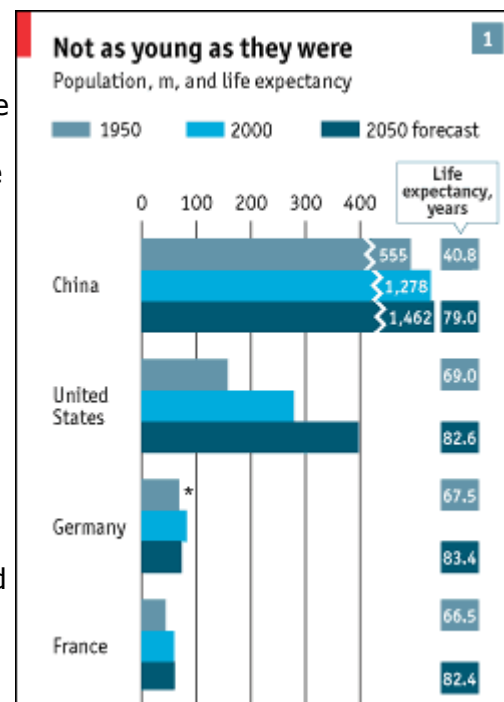
The German demographics are far from exceptional. In Japan, the world's second-largest economy, the population will peak in 2005, at around 125m. By 2050, according to the more pessimistic government forecasts, the population will have shrunk to around 95m. Long before that, around 2030, the share of the over-65s in the adult population will have grown to about half. And the birth rate in Japan, as in Germany, is down to 1.3 per woman.

The figures are pretty much the same for most other developed countries—Italy, France, Spain, Portugal, the Netherlands, Sweden—and for a good many emerging ones, especially China. In some regions, such as central Italy, southern France or southern Spain, birth rates are even lower than in Germany or Japan.

Life expectancy—and with it the number of older people—has been going up steadily for 300 years. But the decline in the number of young people is something new. The only developed country that has so far avoided this fate is America. But even there the birth rate is well below replacement level, and the proportion of older people in the adult population will rise steeply in the next 30 years.

All this means that winning the support of older people will become a political imperative in every developed country. Pensions have already become a regular election issue. There is also a growing debate about the desirability of immigration to maintain the population and workforce. Together these two issues are transforming the political landscape in every developed country.

By 2030 at the latest, the age at which full retirement benefits start will have risen to the mid-70s in all developed countries, and benefits for healthy pensioners will be substantially lower than they are today. Indeed, fixed retirement ages for people in reasonable physical and



mental condition may have been abolished to prevent the pensions burden on the working population from becoming unbearable. Already young and middle-aged people at work suspect that there will not be enough pension money to go round when they themselves reach traditional retirement age. But politicians everywhere continue to pretend that they can save the current pensions system.



Needed but unwanted

Immigration is certain to be an even hotter issue. The respected DIW research institute in Berlin estimates that by 2020 Germany will have to import 1m immigrants of working age each year simply to maintain its workforce. Other rich European countries are in the same boat. And in Japan there is talk of admitting 500,000 Koreans each year—and sending them home five years later. For all big countries but America, immigration on such a scale is unprecedented.

The political implications are already being felt. In 1999 fellow Europeans were shocked by the electoral success in Austria of a xenophobic right-wing party whose main plank is “no immigration”. Similar movements are growing in Flemish-speaking Belgium, in traditionally liberal Denmark and in northern Italy. Even in America, immigration is upsetting long-established political alignments. American trade unions' opposition to large-scale immigration has put them in the anti-globalisation camp that organised violent protests during the Seattle meeting of the World Trade Organisation in 1999. A future Democratic candidate for the American presidency may have to choose between getting the union vote by opposing immigration, or getting the vote of Latinos and other newcomers by supporting it. Equally, a future Republican candidate may have to choose between the support of business, which is clamouring for workers, and the vote of a white middle class that increasingly opposes immigration.

Even so, America's experience of immigration should give it a lead in the developed world for several decades to come. Since the 1970s it has been admitting large numbers of immigrants, either legally or illegally. Most immigrants are young, and the birth rates of first-generation immigrant women tend to be higher than those of their adopted country. This means that for the next 30 or 40 years America's population will continue to grow, albeit slowly, whereas in some other developed countries it will fall.

A country of immigrants

But it is not numbers alone that will give America an advantage. Even more important, the country is culturally attuned to immigration, and long ago learned to integrate immigrants into its society and economy. In fact, recent immigrants, whether Hispanics or Asians, may be integrating faster than ever. One-third of all recent Hispanic immigrants, for instance, are reported to be marrying non-Hispanics and non-immigrants. The one big obstacle to the full integration of recent immigrants in America is the poor performance of American public schools.

Among developed countries, only Australia and Canada have a tradition of immigration similar to America's. Japan has resolutely kept foreigners out, except for a spate of Korean immigrants in the 1920s and 1930s, whose descendants are still being discriminated against. The mass migrations of the 19th century were either into empty, unsettled spaces (such as the United

States, Canada, Australia, Brazil), or from farm to city within the same country. By contrast, immigration in the 21st century is by foreigners—in nationality, language, culture and religion—who move into settled countries. European countries have so far been less than successful at integrating such foreigners.

The biggest effect of the demographic changes may be to split hitherto homogeneous societies and markets. Until the 1920s or 30s, every country had a diversity of cultures and markets. They were sharply differentiated by class, occupation and residence, eg, “the farm market” or “the carriage trade”, both of which disappeared some time between 1920 and 1940. Yet since the second world war, all developed countries have had only one mass culture and one mass market. Now that demographic forces in all the developed countries are pulling in opposite directions, will that homogeneity survive?

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The markets of the developed world have been dominated by the values, habits and preferences of the young population. Some of the most successful and most profitable businesses of the past half-century, such as Coca-Cola and Procter & Gamble in America, Unilever in Britain and Henkel in Germany, owe their prosperity in large measure to the growth of the young population and to the high rate of family formation between 1950 and 2000. The same is true of the car industry over that period.

The end of the single market

Now there are signs that the market is splitting. In financial services, perhaps America's fastest-growing industry over the past 25 years, it has split already. The bubble market of the 1990s, with its frantic day-trading in high-tech stocks, belonged mainly to the under-45s. But the customers in the markets for investments, such as mutual funds or deferred annuities, tend to be over 50, and that market has also been growing apace. The fastest-growing industry in any developed country may turn out to be the continuing education of already well-educated adults, which is based on values that are all but incompatible with those of the youth culture.

But it is also conceivable that some youth markets will become exceedingly lucrative. In the coastal cities of China, where the government was able to enforce its one-child policy, middle-class families are now reported to spend more on their one child than earlier middle-class families spent on their four or five children together. This seems to be true in Japan too. Many American middle-class families are spending heavily on the education of their single child, mainly by moving into expensive suburban neighbourhoods with good schools. But this new luxury youth market is quite different from the homogeneous mass market of the past 50 years. That mass market is rapidly weakening because of the decline in the numbers of young people reaching adulthood.

In future there will almost certainly be two distinct workforces, broadly made up of the under-50s and the over-50s respectively. These two workforces are likely to differ markedly in their needs and behaviour, and in the jobs they do. The younger group will need a steady income from a permanent job, or at least a succession of full-time jobs. The rapidly growing older group will have much more choice, and will be able to combine traditional jobs, non-conventional jobs and leisure in whatever proportion suits them best.

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The split into two workforces is likely to start with female knowledge technologists. A nurse, a computer technologist or a paralegal can take 15 years out to look after her children and then return to full-time work. Women, who now outnumber men in American higher education, increasingly look for work in the new knowledge technologies. Such jobs are the first in human history to be well adapted to the special needs of women as childbearers, and to their increasing longevity. That longevity is one of the reasons for the split in the job market. A 50-year working life—unprecedented in human history—is simply too long for one kind of work.

The second reason for the split is a shrinking life expectancy for businesses and organisations of all kinds. In the past, employing organisations have outlived employees. In future, employees, and especially knowledge workers, will increasingly outlive even successful organisations. Few businesses, or even government agencies or programmes, last for more than 30 years. Historically, the working lifespan of most employees has been less than 30 years because most manual workers simply wore out. But knowledge workers who enter the labour force in their 20s are likely to be still in good physical and mental shape 50 years later.

"Second career" and "second half of one's life" have already become buzzwords in America. Increasingly, employees there take early retirement as soon as their pension and Social Security (state retirement benefit) rights are guaranteed for the time when they reach traditional retirement age; but they do not stop working. Instead, their "second career" often takes an unconventional form. They may work freelance (and often forget to tell the taxman about their work, thus boosting their net income), or part-time, or as "temporaries", or for an outsourcing contractor, or as contractors themselves. Such "early retirement to keep on working" is particularly common among knowledge workers, who are still a minority among people now reaching 50 or 55, but will become the largest single group of older people in America from about 2030.

Beware demographic changes

Population predictions for the next 20 years can be made with some certainty because almost everybody who will be in the workforce in 2020 is already alive. But, as American experience in the past couple of decades has shown, demographic trends can change quite suddenly and unpredictably, with fairly immediate effects. The American baby boom of the late 1940s, for instance, triggered the housing boom of the 1950s.

In the mid-1920s America had its first "baby bust". Between 1925 and 1935 the birth rate declined by almost half, dipping below the replacement rate of 2.2 live births per woman. In the late 1930s, President Roosevelt's Commission on American Population (consisting of the country's most eminent demographers and statisticians) confidently predicted that America's population would peak in 1945 and would then start declining. But an exploding birth rate in the late 1940s proved it wrong. Within ten years, the number of live births per woman doubled from 1.8 to 3.6. Between 1947 and 1957, America experienced an astonishing "baby boom". The number of babies born rose from 2.5m to 4.1m.

Then, in 1960-61, the opposite happened. Instead of the expected second-wave baby boom as the first boomers reached adulthood, there was a big bust. Between 1961 and 1975, the birth rate fell from 3.7 to 1.8. The number of babies born went down from 4.3m in 1960 to 3.1m in 1975. The next surprise was the "baby boom echo" in the late 1980s and early 1990s. The number of live births went up quite sharply, surpassing even the numbers of the first baby boom's peak years. With the benefit of hindsight, it is now clear that this echo was triggered by large-scale immigration into America, beginning in the early 1970s. When the girls born to these early immigrants started having children of their own in the late 1980s, their birth rates were still closer to those of their parents' country of origin than to those of their adopted country. Fully one-fifth of all children of school age in California in the first decade of this century have at least one foreign-born parent.

But nobody knows what caused the two baby busts, or the baby boom of the 1940s. Both busts occurred when the economy was doing well, which in theory should have encouraged people to have lots of children. And the baby boom should never have happened, because historically birth rates have always gone down after a big war. The truth is that we simply do not understand what determines birth rates in modern societies. So demographics will not only be

the most important factor in the next society, it will also be the least predictable and least controllable one.

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